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## Abstract:

TradeWeb, developed by Credit Suisse First Boston, Goldman, Sachs & Co., Lehman Brothers, and Salomon Brothers, is an ambitious system being hyped as the "on-line bond market." According to Jim Toffey, CEO of the 3-month-old TradeWeb, the bond market faces an inevitable move toward a standard of electronic execution. TradeWeb operates like an electronic version of the phone-based dealer market. But instead of making multiple phone calls to get bids or offers from several dealers, institutional clients hooked up to TradeWeb will be able to put trade requests, including the size of transactions, into the system.

## Text:

The last time Wall Street's biggest bond dealers put together an electronic joint venture, they ended up with a political and operational mess called EJV Partners. Seven years and tens of millions of wasted dollars later, at least four of the top bond dealers -- Credit Suisse First Boston, Goldman, Sachs & Co., Lehman Brothers and Salomon Brothers - are at it again.

It's too soon to tell, of course, whether TradeWeb, an even more ambitious system being hyped as the "on-line bond markets" will fare any better. But the bond dealers are under more pressure to get it right this time. With the spread of electronic trading systems, the largest dealers face the prospect of losing control of the market to technology vendors or smaller dealers if they can't put their own system into place fast. Equity pros have already seen how a private trading system like Reuters Holdings' Instinet (see CEO Interview) can seize a large volume of market trading without the sponsorship of dealers. And the bond market, argues Jim Toffey, chief executive of the threemonth-old TradeWeb, faces an inevitable move toward a standard of electronic execution. "You're either going to be on it or off it," says Toffey. "The competitive threat from information vendors raises the warning flag."

Toffey came to this conclusion the hard way. He spent eight years at CS First Boston, first as a bond trader and then as head of its fixed-income electronic trading effort. While he was building electronic proprietary trading systems for the firm (he left in July), Toffey concluded that, like it or not, institutional clients really wanted an on-line system that would allow them to trade with multiple dealers. "When I was telling them about [CS First Boston's proprietary] GovTrade, they said what they really wanted was to see prices from different dealers on one screen and select the best price," Toffey says.

Toffey won approval from CS First Boston's executive committee in spring 1996 to start developing TradeWeb, which will be launched early next year with Treasury securities trading. He received a noaction letter this spring from the Securities and Exchange Commission giving him regulatory approval to operate the system. Most important, Toffey signed up Goldman, Lehman and Salomon. "We can talk about technology all day, but what will make TradeWeb work will be liquidity," asserts Toffey. The four dealers jointly own a majority stake in TradeWeb, an independent company.

TradeWeb operates like an electronic version of the phone-based dealer market. But instead of making multiple phone calls to get bids or offers from several dealers, institutional clients hooked up to TradeWeb will be able to put trade requests, including the size of transactions, into the system. They can select the dealers they want in on the action and zap trade requests to them. Offers good for a specified time are returned from each dealer and displayed for the client on a single screen. "For the first time ever, if you're a customer, you can ask for a price from all four dealers [at once]," Toffey notes. Customers and dealers will be identified at all times on all trades, which can then be executed and confirmed on-line. "We're not trying to create a black box," says Toffey. "We want the dealer market to grow."

That may comfort the heads of bond floors, but it's bad news for any salespeople and traders who have made their money by filling orders and handing out New York Rangers tickets to clients. Still, three quarters of dealers responding to a recent survey by the Bond Market Association predicted that institutional investors will demand multidealer offering systems within two years. Toffey is confident that the other larger dealers will feel pressure to sign up once TradeWeb goes live in the first half of 1998.

Institutional investors will be able to connect to TradeWeb through a secure intranet or through the Internet. The long lead time in wiring up clients has foiled many experimental trading systems, but Toffey says that Internet technology will profoundly affect the ability of firms to experiment with new electronic services. "Start-up costs are a tenth of what they would have been five years ago," he observes.

Of course, EJVB also seemed like a no-brainer when First Boston, Goldman, Lehman, Salomon, Citibank and Morgan Stanley & Co. banded together in 1990 to move bond data and analytics through a system that was supposed to challenge Bloomberg. After numerous setbacks and reorganizations, EJVB was sold in 1996 to Bridge, the growing financial information service.

Can Wall Street's unruly bond floors cooperate this time around? They may have no choice.

**THIS IS THE FULL-TEXT.**

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